



Fiscal Year 2011 Financial Plan Budget Message

April 2, 2010

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2011 operating and capital budgets and the FY2011-2015 capital plan. The budget as proposed totals \$114,300,653, which is an increase of \$541,485 (0.5%) from the current budget. A summary showing a comparison of the FY2010 and FY2011 revenues and expenses is shown on page 2.

FY2010, the current fiscal year, is the last year of the five year plan that incorporated the Proposition 2 ½ override of 2005, which was designed to carry the Town's budgets through FY2010. The key commitments of the five year plan were as follows:

- 1) *Override funds will be made to last at least five years (FY2006-FY2010). No general override will be sought during this period.*
- 2) *Healthcare and pension costs will be limited to increases of no more than 7% and 4% respectively.*
- 3) *Town and school operating budgets will be limited to increases of no more than 4%. Should healthcare costs exceed the 7% limitation, operating budget increases shall be reduced below 4% accordingly.*
- 4) *Reserves shall be maintained in an amount equivalent to at least 5% of the budget.*

Commitments to the plan were fulfilled and the plan worked as designed. In fact, despite the economic crisis and cuts in state aid, the FY2010 budget was fully funded in accordance with the plan, and there was still more than \$1.5 million left in the override stabilization fund to apply to the sixth year, FY2011.

While it was known that at the conclusion of the five year plan the Town would be back to facing difficult financial and budget choices, the economic crisis, spawning a severe recession and high unemployment, has severely exacerbated the Town's financial position. The Town's reserves have plummeted; state aid was cut significantly in FY2009, FY2010, and is expected to be cut again in FY2011.

It is still early in the budget process and much can change over the next few months. The House Ways & Means Committee is due to come out with its recommendations for local aid on April 15. Communities have been told to expect a cut of 4% in Chapter 70 and Unrestricted General Government Aid.



Overall Budget Summary

	FY2010	FY2011	Change	
			\$	%
Revenue				
Property Tax	\$ 83,471,036	\$ 85,826,180	\$ 2,355,144	2.8%
Local Receipts	\$ 8,026,872	\$ 8,860,000	\$ 833,128	10.4%
State Aid	\$ 14,240,565	\$ 13,701,410	\$ (539,155)	-3.8%
School Construction Aid	\$ 2,531,085	\$ 2,531,085	\$ -	0.0%
IDEA Funds	\$ 749,327	\$ 719,928	\$ (29,399)	-3.9%
Free Cash	\$ 1,497,907	\$ 582,050	\$ (915,857)	-61.1%
Other Funds	\$ 3,242,376	\$ 2,080,000	\$ (1,162,376)	-35.8%
TOTAL REVENUES	\$ 113,759,168	\$ 114,300,653	\$ 541,485	0.5%
Expenditures				
Municipal Departments	\$ 27,924,820	\$ 27,765,818	\$ (159,002)	-0.6%
School Department (includes IDEA funds above)	\$ 38,455,380	\$ 39,306,114	\$ 850,734	2.2%
Minuteman School	\$ 3,090,368	\$ 2,739,795	\$ (350,573)	-11.3%
Non-Departmental (Healthcare & Pensions)	\$ 24,615,007	\$ 26,320,673	\$ 1,705,666	6.9%
Capital	\$ 8,107,764	\$ 7,967,673	\$ (140,091)	-1.7%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ -	0.0%
Warrant Articles	\$ 646,515	\$ 584,144	\$ (62,371)	-9.6%
TOTAL EXPENDITURES	\$ 108,432,966	\$ 110,277,329	\$ 1,844,363	1.7%
Non-Appropriated Expenses	\$ 5,326,202	\$ 4,023,324	\$ (1,302,878)	-24.5%
Surplus/(Deficit)	\$ -	\$ -	\$ -	0.0%



Municipal Departmental Budgets

As the budget process started out, it appeared that Town and School budgets would have to be decreased by 2.5% from the current year. Through various increases in revenues and decreases in some fixed costs, there is now a net revenue increase of \$691,732 available for Town and School operating budgets which allows for a 1% increase. Given the special education cost pressures on the school budget and some state and federal grant/reimbursement reductions, I have recommended moving \$450,000 from the Town budget to the School budget. This results in a School budget increase of \$850,734 (2.2%) and Town budget decrease of \$159,002 (-0.6%).

Due to various fixed cost increases in the Town budgets, the discretionary cuts amount to over \$500,000. The budgets for Arlington's Municipal departments are already at, or near, the bottom of its comparable communities. Consequently, these cuts are particularly painful and will have negative impacts on services. As an example, Arlington is already the lowest staffed police department on a per capita basis in the metropolitan area. That combined with growing gang violence, increases in the volume and lethality of domestic violence cases, the frequency and complexity of identify theft investigations, and other crime and disorder threatening to spill over to Arlington, is a serious concern. Municipal services are labor intensive, thus most of the budgets are for personnel related costs. Personnel levels are a direct reflection of the Town's ability to provide services and thus provide a good insight as to what is happening. The personnel chart on the next page shows the significant reduction that has occurred over the last several years.

The budget reductions have forced some difficult choices. The more significant reductions are as follows:

Police - \$60,000
Cut 1 patrolman

Fire - \$55,000
Cut 1 firefighter

Public Works - \$84,182
Cut 1 position in Natural Resources, and will likely end up cutting 2 more in Highway

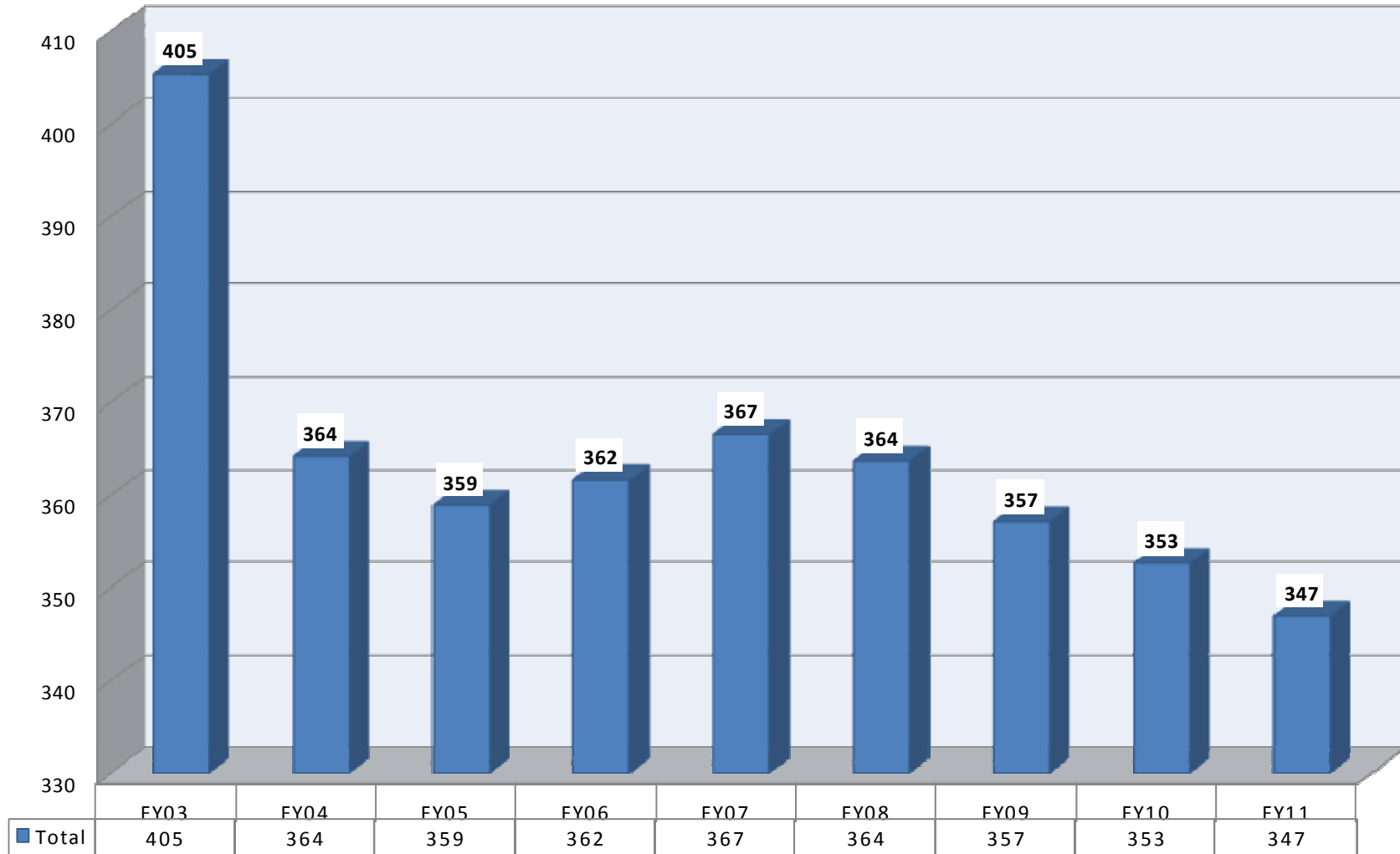
Library - \$25,817
Combined Assistant Director and Branch Librarian positions
Reduced hours at Fox Library

Youth Services - \$103,594
Cut Town Subsidy in half leaving only the minimum staffing required to retain counseling license. Goal is to rebuild program on a more self-sustaining basis.

Planning & Redevelopment - \$88,071
Reduced hours of Assistant Planning Director and will require Gibbs tenants to pay energy costs directly into a revolving fund.



Town Personnel Trends FY 2003 - FY2011 FTEs





Comparative Data

There are a number of factors that contribute to Arlington's structural deficit—some common among all municipalities and some relatively unique to Arlington. Double digit increases in employee healthcare costs and energy costs affect all municipalities. Arlington has been penalized by an unfair state aid distribution formula. Statewide, communities are 8% above the FY2002 level while Arlington is still 16% below FY2002.

Some of the factors particular to Arlington include the fact that Arlington is a densely populated, fully built-out community (see Tables 1 and 2). Revenue from growth in the tax base ranks last among a group of 20 comparable communities (see Table 3). It is less than two-thirds of the state-wide average. Another indicator of the Town's ability and opportunity to raise revenues is a measure developed by the Department of Revenue called Municipal Revenue Growth Factor (MRGF). It measures a community's ability to raise revenue, taking into consideration a community's tax levy limit, new growth, state aid, and local receipts. As you can see from Table 4, the state-wide average and average of the twenty comparable communities MRGF is 0.75 and 1.1 respectively. Arlington's is a negative 0.67 and third from the bottom of the 20 communities.

Another factor affecting the Town's financial structure is its tax base. The Town's tax base is nearly all residential—the commercial/industrial sector makes up less than 6% of the total. Table 5 shows that Arlington's commercial/industrial tax base ranks it 17th out of 20 comparable communities. The average of these communities is 20.5%, more than triple that of Arlington. This affects not only the Town's ability to raise revenue, it places a heavier tax burden on the residential sector as there is almost no commercial/industrial sector with which to share the tax burden.

Notwithstanding this, the tax burden, when measured several different ways, is at or below the average of the 20 comparable communities. In fact, the Town ranks 13th in taxes per capita, and 11th in taxes per household as a percent of median household income. This despite the fact that Arlington's tax levy includes more than \$5 million in MWRA water and sewer debt that only one other community includes on its levy.

A look at how the Town's spending levels impact the Town's financial position shows that the Town's spending per capita is well below the state average and the average of the 20 comparable communities. In overall expenditures per capita, the Town ranks 16th and nearly 10% below the state-wide average (see Tables 9-11). With spending well below the state-wide average and below comparable communities, and with revenue growth opportunities well below the statewide average and at the bottom of comparable communities, it is clear that the structural problem with the Town's finances lies with the revenue side of the equation as opposed to the spending side. Limited growth in the tax base, a tax base almost all residential, coupled with a \$3.3 million reduction in state aid, left the Town in 2005 with only two choices—significant budget cuts with the resulting service reductions or the first Proposition 2 ½ general override since 1991.



Table 1	
Municipality	Pop Per Square Mile
1 BROOKLINE	8,085
2 ARLINGTON	7,914
3 WATERTOWN	7,875
4 MEDFORD	6,827
5 MELROSE	5,695
6 SALEM	5,093
7 BELMONT	4,998
8 WINCHESTER	3,492
9 STONEHAM	3,491
10 WEYMOUTH	3,131
11 RANDOLPH	2,987
12 WOBURN	2,910
13 NORWOOD	2,692
14 WELLESLEY	2,676
15 READING	2,321
16 NEEDHAM	2,265
17 NATICK	2,114
18 MILTON	2,008
19 LEXINGTON	1,846
20 CHELMSFORD	1,519
Ave w/o Arlington	3,791
Arlington	7,914

Table 2	
Municipality	Households Per Sq Mile
1 BROOKLINE	3,890
2 ARLINGTON	3,747
3 WATERTOWN	3,652
4 MEDFORD	2,787
5 MELROSE	2,398
6 SALEM	2,244
7 BELMONT	2,142
8 STONEHAM	1,510
9 WEYMOUTH	1,327
10 WINCHESTER	1,309
11 WOBURN	1,215
12 RANDOLPH	1,145
13 NORWOOD	1,140
14 READING	889
15 NATICK	886
16 WELLESLEY	870
17 NEEDHAM	860
18 MILTON	703
19 LEXINGTON	691
20 CHELMSFORD	575
Ave w/o Arlington	1,591
Arlington	3,747

Table 3	
Municipality	New Growth Ave '08-'10
1 NATICK	2.71%
2 LEXINGTON	2.64%
3 NEEDHAM	2.46%
4 NORWOOD	2.25%
5 WELLESLEY	1.87%
6 WOBURN	1.82%
7 SALEM	1.81%
8 MEDFORD	1.61%
9 BROOKLINE	1.53%
10 CHELMSFORD	1.52%
11 MELROSE	1.40%
12 RANDOLPH	1.35%
13 BELMONT	1.34%
14 READING	1.24%
15 WATERTOWN	1.16%
16 WEYMOUTH	1.09%
17 STONEHAM	1.08%
18 MILTON	1.07%
19 WINCHESTER	0.97%
20 ARLINGTON	0.93%
Ave w/o Arlington	1.63%
Arlington	0.93%
State-wide Ave	1.49%

Table 4	
Municipality	FY2010 Municipal Revenue Growth Factor
1 LEXINGTON	4.59
2 WELLESLEY	3.81
3 NEEDHAM	2.89
4 WINCHESTER	2.14
5 CHELMSFORD	1.88
6 WATERTOWN	1.86
7 BROOKLINE	1.75
8 WOBURN	1.13
9 STONEHAM	1.09
10 READING	0.98
11 MILTON	0.86
12 BELMONT	0.72
13 SALEM	0.54
14 RANDOLPH	0.18
15 NORWOOD	-0.18
16 NATICK	-0.38
17 MEDFORD	-0.66
18 ARLINGTON	-0.67
19 WEYMOUTH	-1.09
20 MELROSE	-1.34
Ave w/o Arlington	1.1
Arlington	-0.67
State-Wide Ave	0.75



Table 5	
Municipality	FY2009 Commercial/Industrial % of Total Value
1 WOBURN	51.06
2 NORWOOD	44.44
3 WATERTOWN	32.73
4 SALEM	27.72
5 WEYMOUTH	23.91
6 NATICK	22.71
7 RANDOLPH	22.26
8 MEDFORD	22.23
9 NEEDHAM	22.15
10 LEXINGTON	22.06
11 CHELMSFORD	19.49
12 STONEHAM	17.39
13 BROOKLINE	15.96
14 WELLESLEY	12.68
15 READING	8.56
16 MELROSE	8.49
17 ARLINGTON	6.02
18 BELMONT	5.79
19 MILTON	5.43
20 WINCHESTER	5.23
Ave w/o Arlington	20.5
Arlington	6.0

Table 6	
Municipality	FY2009 Taxes Per Cap
1 LEXINGTON	3843
2 WELLESLEY	3275
3 NEEDHAM	2869
4 WINCHESTER	2848
5 BELMONT	2684
6 BROOKLINE	2683
7 WATERTOWN	2291
8 CHELMSFORD	2183
9 WOBURN	2132
10 MILTON	2087
11 NATICK	2074
12 READING	2055
13 ARLINGTON	1975
14 STONEHAM	1724
15 NORWOOD	1714
16 SALEM	1626
17 MELROSE	1571
18 WEYMOUTH	1492
19 RANDOLPH	1413
20 MEDFORD	1371
Ave w/o Arlington	2,207
Arlington	1,975

Table 7	
Municipality	FY2009 Taxes Per Household As a % of 1999 Household Income
1 WELLESLEY	9.4%
2 NEEDHAM	7.8%
3 LEXINGTON	7.5%
4 READING	7.2%
5 WINCHESTER	7.2%
6 MILTON	7.2%
7 CHELMSFORD	6.9%
8 BELMONT	6.7%
9 BROOKLINE	6.4%
10 NATICK	6.3%
11 ARLINGTON	6.2%
12 MELROSE	6.2%
13 STONEHAM	5.9%
14 WATERTOWN	5.6%
15 MEDFORD	5.6%
16 WOBURN	5.3%
17 RANDOLPH	5.2%
18 WEYMOUTH	4.9%
19 SALEM	4.8%
20 NORWOOD	4.0%
Ave w/o Arlington	6.3%
Arlington	6.22%

Table 8	
Municipality	FY2008 Gen Gov Expenditures Per Cap
1 WINCHESTER	371
2 NATICK	194
3 LEXINGTON	167
4 BROOKLINE	165
5 NEEDHAM	165
6 BELMONT	162
7 NORWOOD	146
8 WELLESLEY	138
9 WATERTOWN	120
10 READING	115
11 ARLINGTON	111
12 CHELMSFORD	108
13 SALEM	100
14 MELROSE	93
15 WOBURN	87
16 RANDOLPH	87
17 STONEHAM	85
18 WEYMOUTH	81
19 MILTON	78
20 MEDFORD	63
Ave w/o Arlington	127
Arlington	111
State-wide Ave	137



Table 9	
Municipality	FY2008 Public Safety Exp Per Cap
1 WOBURN	641
2 WEYMOUTH	611
3 NORWOOD	593
4 BROOKLINE	475
5 WATERTOWN	442
6 NEEDHAM	400
7 MEDFORD	396
8 BELMONT	379
9 SALEM	374
10 WELLESLEY	346
11 LEXINGTON	342
12 WINCHESTER	341
13 NATICK	331
14 MILTON	304
15 MELROSE	293
16 ARLINGTON	292
17 READING	276
18 CHELMSFORD	264
19 STONEHAM	208
20 RANDOLPH	158
Ave w/o Arlington	378
Arlington	292
State-wide Ave	388

Table 10	
Municipality	FY2008 Public Works Exp Per Cap
1 NORWOOD	695
2 WINCHESTER	269
3 RANDOLPH	261
4 WATERTOWN	252
5 WELLESLEY	245
6 LEXINGTON	242
7 WOBURN	229
8 READING	219
9 BELMONT	211
10 BROOKLINE	188
11 WEYMOUTH	174
12 CHELMSFORD	172
13 MILTON	167
14 ARLINGTON	162
15 NATICK	159
16 NEEDHAM	156
17 MEDFORD	153
18 STONEHAM	145
19 MELROSE	144
20 SALEM	84
Ave w/o Arlington	219
Arlington	162
State-wide Ave	166

Table 11	
Municipality	FY2009 School Per Pupil Exp
1 BROOKLINE	16,847
2 WATERTOWN	16,277
3 LEXINGTON	15,368
4 SALEM	14,469
5 WELLESLEY	14,330
6 RANDOLPH	14,286
7 WOBURN	13,909
8 MEDFORD	13,269
9 NORWOOD	12,993
10 NEEDHAM	12,955
11 NATICK	12,926
12 WEYMOUTH*	12,034
13 ARLINGTON	11,813
14 BELMONT	11,653
15 MILTON	11,473
16 STONEHAM	11,400
17 WINCHESTER	11,259
18 READING	10,742
19 MELROSE	10,288
20 CHELMSFORD	10,221
Ave w/o Arlington	12,435
Arlington	11,813
State-wide Ave	13,060

Table 12	
Municipality	FY2008 Total Exp Per Cap
1 LEXINGTON	3,506
2 NORWOOD	3,501
3 WELLESLEY	3,496
4 WINCHESTER	3,291
5 NEEDHAM	3,268
6 BROOKLINE	3,240
7 READING	3,206
8 NATICK	3,054
9 CHELMSFORD	2,782
10 WATERTOWN	2,713
11 BELMONT	2,713
12 WOBURN	2,711
13 MILTON	2,638
14 SALEM	2,564
15 STONEHAM	2,450
16 ARLINGTON	2,426
17 RANDOLPH	2,397
18 WEYMOUTH	2,137
19 MELROSE	2,079
20 MEDFORD	1,922
Ave w/o Arlington	2,826
Arlington	2,426
State-wide Ave	2,678

*2008 Data used for Weymouth,



Cost Savings/Performance Strategies

The Town has continuously pursued numerous strategies for reducing costs and becoming more productive. Recently the Town has participated in a consortium of about a dozen area communities to pursue regionalization opportunities. Many service and purchasing contracts are being implemented regionally. Additional regionalizing opportunities are being evaluated at the ongoing monthly meetings of this consortium.

Currently we are in discussions with the Towns of Belmont and Lexington about combining the health departments of the three communities. The Metropolitan Area Planning Council (MAPC) is providing technical assistance to determine what, if any, benefits can be derived and what implementation steps are necessary. The Town has also been evaluating the current service delivery methods for various services to determine the most cost effective way to deliver the services. Last year cemetery grounds maintenance was contracted out after such an evaluation. Other areas currently being evaluated include maintenance of Town and school grounds.

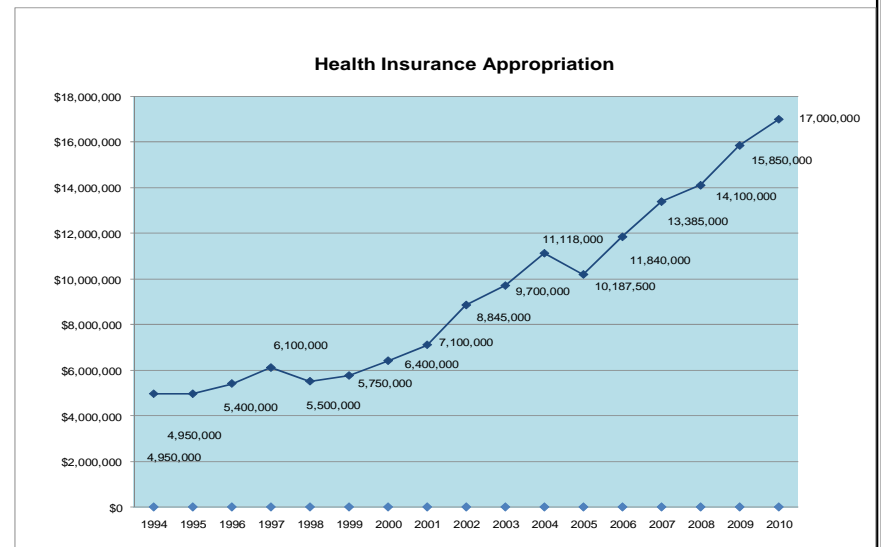
The Town has also joined a consortium of six other communities, under the auspices of the International City Manager's Association (ICMA), to gather and compare performance data for various services. It is helpful to not only measure and compare performance data with comparable communities, but to compare the year-to-year progress made by the Town itself in these service areas.

In order to increase productivity in the long run, the Town has to make better and more effective use of technology. This certainly is not unique to Arlington, as any organization worldwide that does not keep up with productivity enhancements to be gained through the effective use of technology will not be able to compete. One area in which the Town is behind the curve is Geographic Information Systems (GIS). Nearly every department and service involves geographic information. This is clearly an opportunity to enhance productivity with technology. Funding has been included to begin the implementation of GIS.

Healthcare

For more than a year the Town has been negotiating with the employee unions, through a coalition bargaining process, to implement some controls over healthcare costs without significantly impacting the quality of the healthcare programs. After exploring all options, it was determined that the only option that retained quality healthcare while at the same time offering substantial savings for the Town and employees was to join the State's healthcare plan, known as the GIC. The first year net savings were over \$3.5 million even after the GIC rate increase for July 1. The Town would have realized significant savings that would have gone to retain the jobs (and healthcare) of many employees who would otherwise be laid off. This was truly a win-win situation for everyone.

The Town and leadership of the unions agreed to a deal which the unions agreed to bring back to their memberships for a ratification vote. Unfortunately for all parties, the leadership of the Teachers union called five days later to say





that they had changed their minds and would not bring the issue to their membership for a vote. Because the teachers control 50% of the weighted vote, they alone can and did block the deal. This action sealed the fate of a number of employees whose jobs could have been saved. Not only that, with health-care costs going up over \$1.3 million, there is no money for any salary increases. All compensation increases are going to healthcare benefit cost increases.

Collective Bargaining

The Police Ranking officers recently settled their contract for FY2009. They were the last group to settle for FY2009. They settled for the same wage increase agreed to by all other groups. Both the Ranking Police Officers and Patrolman Unions have settled for a 0% increase in FY2010. Contracts with all the other employee unions expired this past June. Negotiations are ongoing for agreements through FY2011. Due to a number of factors including the economic crisis forcing drastic budget reductions, an inflation rate at near zero, and healthcare benefits increasing approximately \$1.3 million, no funds are anticipated to be available for cost of living increases in FY2010 or FY2011. The healthcare cost increase is equivalent to a 3% wage increase.

State Aid

While in January the Governor proposed to level fund local aid, the Legislature, reacting to recent negative revenue trends, has proposed to cut the main local aid accounts by 4%. The House Ways and Means Committee is due to report its recommendation on April 15. For Arlington, overall local aid is projected to decrease by \$539,155 (3.8%) to a total of \$13,701,410, exclusive of school construction aid. This is less local aid than the Town received in FY1988, some 23 years ago (see chart next page). During this period Arlington has seen its share of the local aid "pie" cut in half (see chart on p. I-13).

Since FY2002, Arlington has received the fifth largest percentage decrease in local aid out of 351 cities and towns, losing over \$3.6 million through FY2010 (see chart on p. I-12). Since FY2002, local aid for all municipalities initially dropped by approximately 8%, rebounded through FY2009 to a 20% increase, and then dropped in FY2010 to a cumulative increase of 8% from FY2002. Arlington, on the other hand, has never experienced an increase above FY2002. In fact, in FY2006 Arlington was 15% below FY2002, while the average of all municipalities saw a slight increase. In the current year, FY2010, aid is 16% below FY2002 while the average of all municipalities has seen an increase of 8%.

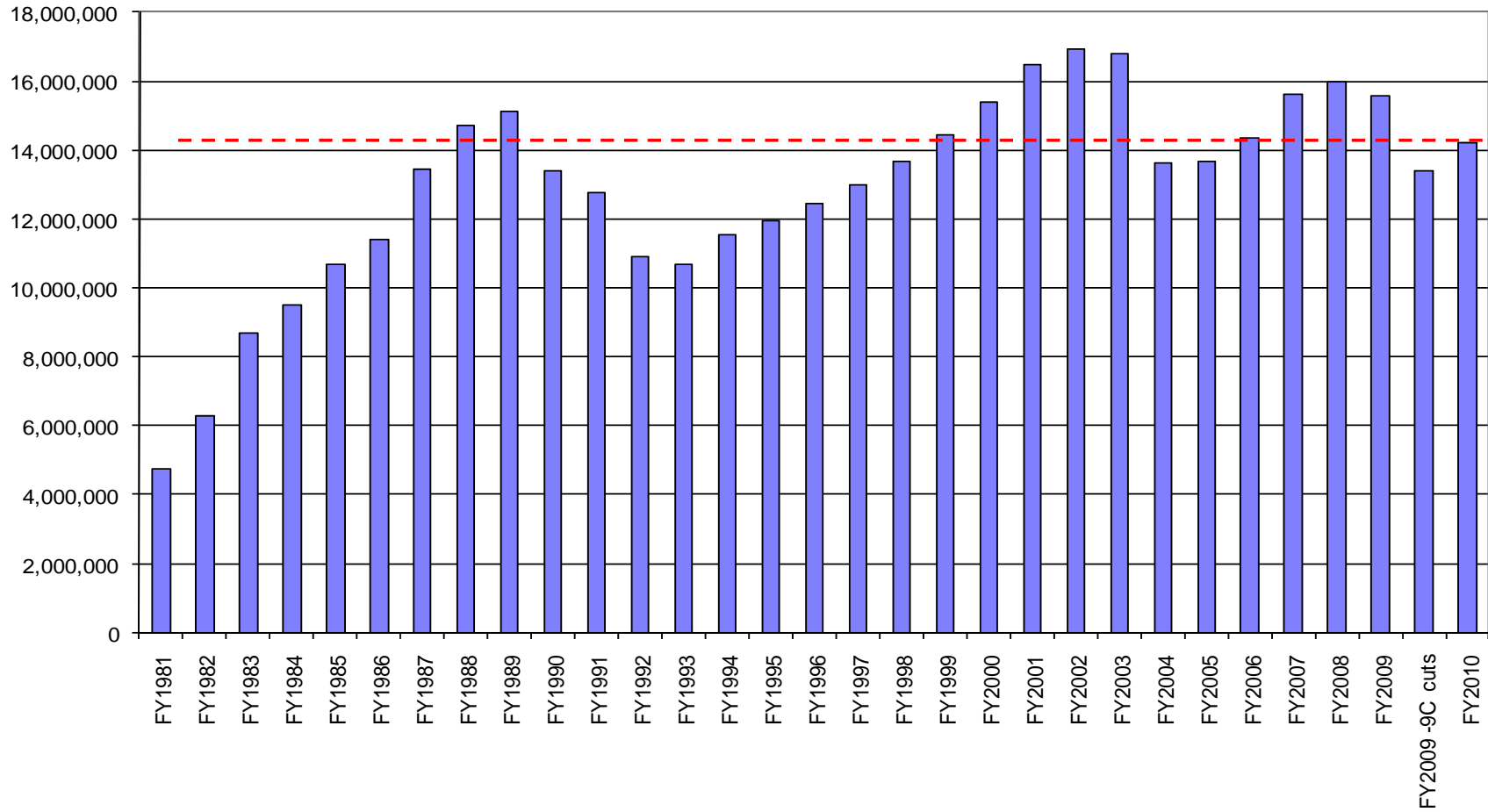
Over the last several years, the distribution formulas used for the cutbacks in state aid—and the subsequent restoration of those cuts—have not been implemented fairly, nor have they recognized the needs of communities like Arlington. The policy has essentially been this: communities with relatively high median income levels and high property values are assumed to have a greater ability to raise revenue locally, and therefore to have less of a need for state aid. The problem is that communities don't have the ability to tax incomes (the state takes all income tax). The only source of revenue available to communities is the property tax, a regressive tax that hurts elderly and lower income residents disproportionately. Without a fair share of state aid, communities like Arlington are faced with the difficult choice of either raising property taxes through overrides, or cutting needed services.

A majority of local aid increases over the last decade has been distributed through the Chapter 70 school aid formula. The formula works to the disadvantage of communities with relatively high incomes and property values. Arlington falls into this category, which means that we are a minimum aid community and are calculated to receive only 17.5% of our school foundation budget (the amount that the state calculates that we should be spending on schools). Some communities receive as much as 85%, with the average targeted at 60%. For FY2011, Arlington will receive the minimum, 17.5%.



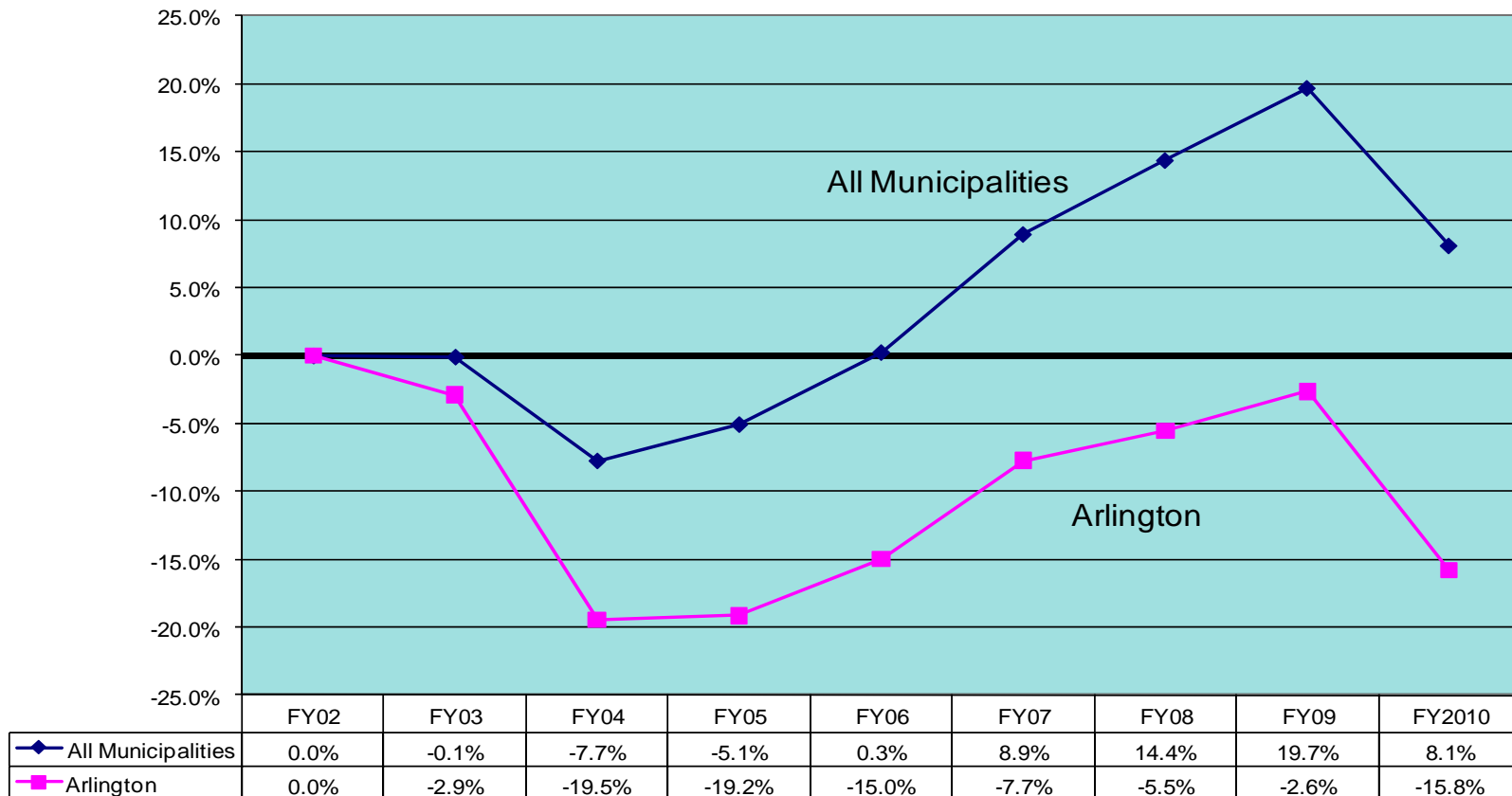
STATE AID RECEIPTS

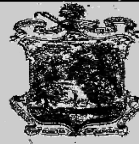
(Numbers exclude School Construction and METCO reimbursements)



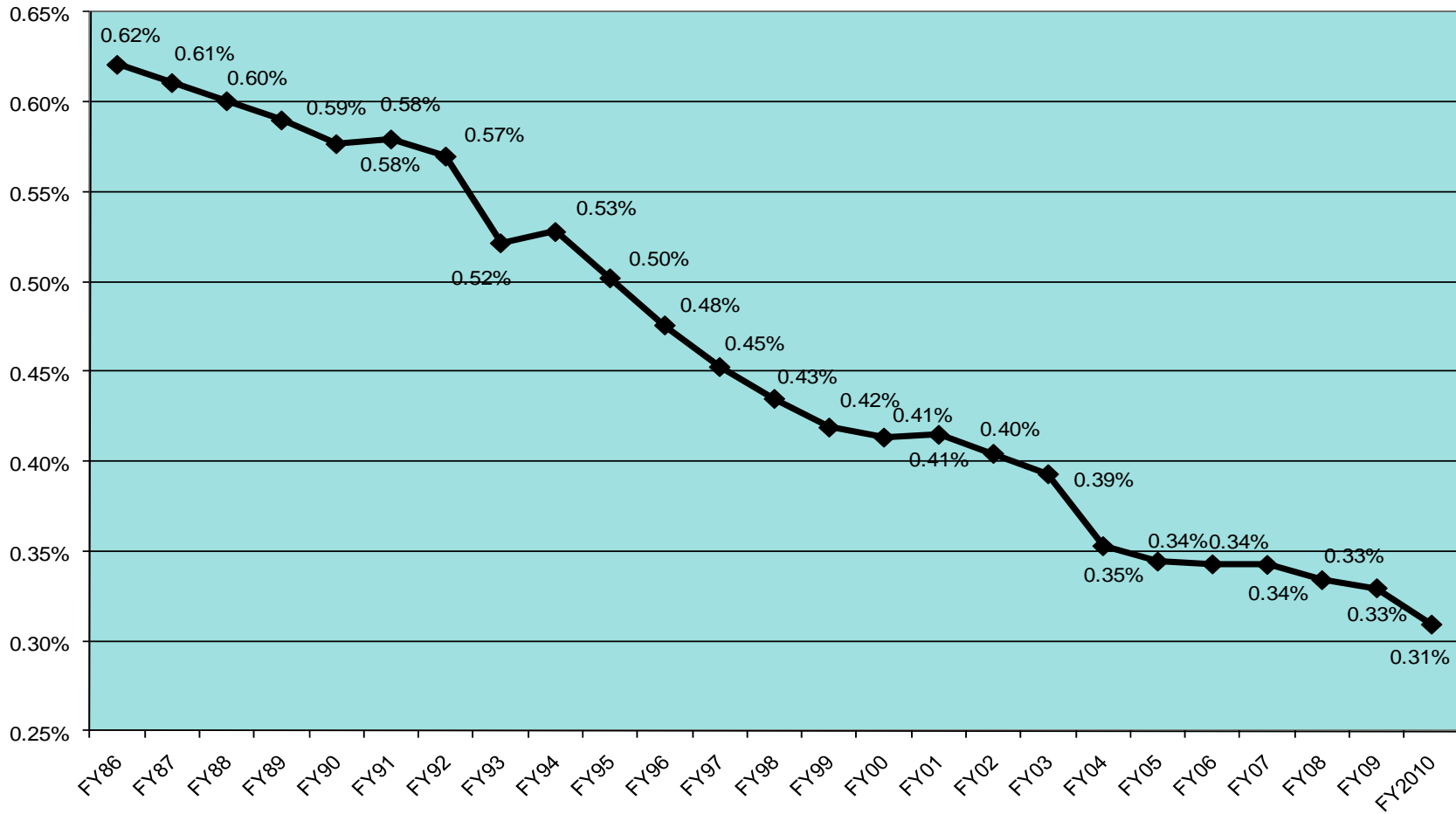


**State Aid Cumulative Percent Change
Since Fiscal Year 2002**
(Numbers exclude School Construction and METCO reimbursements)





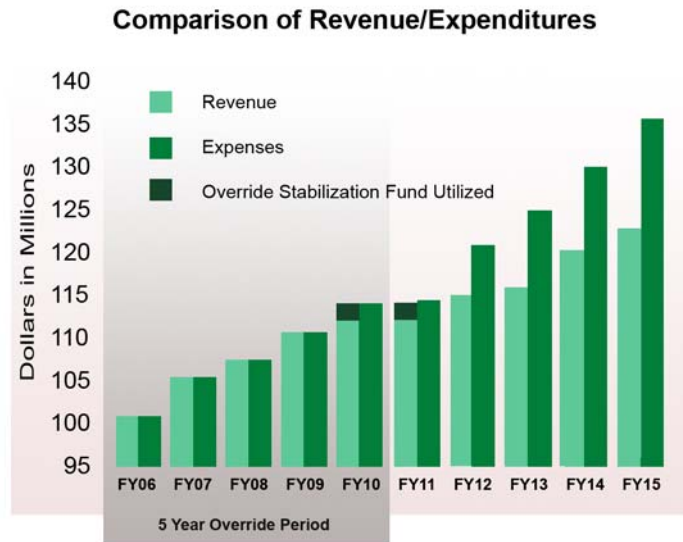
Arlington's Percent of Total State Aid





Town Financial Structure and Outlook

Each year, for several years, the Town has had a structural deficit whereby the growth in revenues has not kept pace with the growth in costs necessary to maintain a level-service budget. The result has been a gradual erosion of services. The nature of the Town's structural deficit is illustrated in the charts below.



Typical Annual Growth

Revenues	
Property Taxes	\$ 2,350,000
Local Receipts	\$ 50,000
State Aid	\$ <u>300,000</u>
Total	\$ 2,600,000
Expenditures	
Wage Adjustments	\$ 1,900,000
Health Insurance/Medicare	\$ 1,500,000
Pensions	\$ 300,000
Miscellaneous (utilities capital/debt, special education, other)	\$ <u>1,000,000</u>
Total	\$ 4,600,000
Structural Deficit	\$ (2,000,000)

The Town's fiscal condition was exacerbated in FY2003 and FY2004 as a result of state aid reductions in excess of \$3.3 million. After major budget reductions and the depletion of reserves, which carried the Town through FY2005, the Town was facing a deficit of approximately \$4 million in FY2006. The passage of a \$6 million Proposition 2 ½ override in 2005 for FY2006 covered the \$4 million deficit and allowed the Town to put into reserve the remaining \$2 million. One of the key commitments made as part of the Proposition 2 ½ override was that the funds would be made to last five years and that no override would be requested during that time. The current year, FY2010, is the last year of the five-year override plan.

The plan served the Town well. It required tight controls over operating budgets. With these controls appropriately managed, the plan overcame the Town's structural deficit and provided sufficient resources to maintain services for the five year period. The departmental budget increases over this five year period are shown on the next page. The school department increases were larger than the municipal departments in recognition of some extraordinary special education cost increases.



The Town's structural deficit still exists; the override simply provided more than enough funds in the first few years so that the surpluses would be used to fund the deficits of the latter years. After the five years, however, the deficits have reappeared for FY2011. The deficit has been exacerbated by the economic crisis and state aid was cut by \$2.6 million in FY2010, with an anticipated cut of over \$500,000 in FY2011. This total cut of \$3.1 million, when typically the Town would be receiving approximately \$300,000 in increases each year, results in revenue decreases of more than \$3.7 million. This negative factor dwarfs the unanticipated positive factor of having \$1.5 million left over in the override stabilization fund at the conclusion of the five year plan, thus making significant budget cuts unavoidable in FY2011.

A turnaround in the economy and state aid increases, together with the reduction in healthcare costs by joining the State's GIC, are the Town's best opportunities for mitigating future budget reductions.

Capital Improvements Plan

The Town's capital improvements program policies call for the allocation of approximately 5% of the general fund revenues to the capital budget. This is exclusive of dedicated funding sources such as enterprise funds, grants, and Proposition 2 ½ debt exclusion projects. For FY2011, funding for the capital budget is as follows:

Bonding	\$ 6,765,728
Cash	\$ 934,947
Other	\$ 2,870,000

Our existing non-exempt debt is \$4.8 million, which is slightly lower than in FY2010. The total capital budget for FY2011, including debt, is estimated at \$10 million. Major projects to be funded in FY2011 include: the renovation of the Highland Fire Station for \$3.7 million, first phase of the Central Fire Station renovation involving restoration and preservation of masonry work for \$1.25 million, first phase of Stratton School renovation involving roof and other infrastructure work totaling \$869,000, streets and sidewalks work for approximately \$1 million, water and sewer work for \$2.25 million, and parks renovation work for \$535,000. The Stratton School renovation project involves three phases totaling \$2.4 million, most of which will be bonded. The debt service for this will be financed with the annual appropriation of \$150,000 already factored into the capital plan.

The renovation/rebuild of the Thompson School has received initial approval of the Massachusetts School Building Authority (MSBA), and is currently going through the MSBA project review and planning process. A project manager, PMA, has been engaged. An architect has been selected, HMFH, and a feasibility study is underway. It has yet to be determined whether this will be a major renovation project or a new school. The MSBA is anticipated to provide funding for approximately 40% of the approved project costs.

**Operating Budget Increases
FY 2006 -FY2011**

	<u>Town</u>	<u>School</u>
FY2006	2.9%	6.2%
FY2007	2.8%	3.2%
FY2008	3.9%	4.0%
FY2009	2.0%	3.0%
FY2010	0.9%	2.1%
FY2011	<u>-0.6%</u>	<u>2.2%</u>
Average Increase	2.0%	3.5%



Long Range Financial Projection

The cornerstone of our strategic budgeting process is the long-range financial projection. Based upon analysis of internal and external factors impacting the Town's operations and finances, we have prepared the long-range projection found on page 20. These projections will, of course, have to be modified as events unfold, but we believe that they are reasonable for fiscal planning purposes.

On the revenue side, we have made the following assumptions:

Revenue Assumptions—

- **Overall revenues** are expected to increase 0.5% in FY 2011. Future year increases range from -0.21% to 2.79%. FY2012 is the lowest due to the drop in available reserves.

- **Tax Levy** - Projected to increase approximately 2.8% per year.
 - Regular Levy - 2 ½ % plus new growth of \$500,000.
 - Debt Exclusion – Actual debt for Proposition 2 ½ debt exclusion school projects minus state reimbursements.
 - MWRA Water and Sewer Debt – Amount from FY2007 held level as voted by Board of Selectmen.

- **State Aid** – Projected to decrease 4% in FY2011, remain flat in FY2012 and then increase by \$300,000, or approximately 1.7% thereafter.

- **School Construction Reimbursement** - Projected to remain the same \$2,531,085.

- **Local Receipts** – Local Receipts have actually decreased \$473,021 over the last three years. The estimate for FY2010 assumed a further reduction, but it actually looks like they have stabilized and rebounded. The estimate for FY2011 is \$250,000 over the estimate for FY2010. Increases thereafter are estimated at \$50,000.



- **Free Cash** – Typically appropriate one-half of certified amount. In FY2011 the amount used is \$582,050. Use is maintained at \$500,000 each year thereafter in anticipation of smaller certified balances.
- **Overlay Reserve Surplus** – Use \$500,000 in FY2011 and \$200,000 thereafter.
- **Other Revenues** – In FY2011, \$1.58 million is drawn down from the Override Stabilization Fund, which will close out the fund. While the fund was expected to be depleted in FY2010, through tight budgeting, it was made to last through FY2012, the sixth year.

Expenditure assumptions include the following:

- **School Budget** – Going forward, expenditures are capped at 3.5% less any amount above a 7% increase for employee healthcare. An additional allocation of \$450,000 has been added each year above the 3.5% in recognition of the extra financial burden of special education costs.
- **Minuteman School** – In FY2011, decreased enrollment dropped our assessment by 11%. Thereafter, increases are projected at 4%.
- **Municipal Departments** - Going forward, expenditures are capped at 3.5% less any amount above a 7% increase for employee healthcare.
- **Capital Budget** – Based upon the 5 year plan that calls for dedicating approximately 5% of revenues to capital spending.
 - **Exempt Debt** – Actual cost of debt service for debt exclusion projects. Declining debt service over the next several years.
 - **Non-Exempt Debt** – Increasing based on major projects over next several years including the fire stations.
 - **Cash** – In FY2011, the CIP calls for \$934,947 in cash-financed projects. Thereafter, amounts average approximately \$850,000.



- **MWRA Debt Shift** – The amount has been level funded at \$5,593,112.
- **Pensions** – In FY2011, and thereafter, increased 4%.
- **Insurance (including healthcare)** – In FY2011 projected increase of 8%. Thereafter, capped at 7%. Any amount above 7% reduces municipal and school budgets.
- **State Assessments** – Based upon preliminary cherry sheets, increased 0.9% in FY2011. Thereafter, increased 2.5%.
- **Offset Aid** – These grants to schools and library are decreased slightly in FY 2011 based upon preliminary cherry sheets and thereafter held level.
- **Overlay Reserve** – This reserve for tax abatements is increased in revaluation years, which are every three years. The next revaluation is scheduled for FY2013. In non-revaluation years, including FY2011, it is reduced to \$600,000.
- **Other** – Court judgments or deficits, including snow removal, revenue, etc., are estimated at \$700,000.
- **Warrant Articles** – In FY2011, Warrant Articles are estimated to total \$584,144 and thereafter \$646,515 each year.



Conclusion

Every effort has been made to implement all appropriate measures that will both maximize the productivity of our organization, and deliver the highest quality of services within available resources. Our entire management team has worked collectively to implement creative ways of doing more with less. We remain committed to maintaining the high quality of life our residents expect and deserve.

As the budget process evolves and additional information becomes available over the coming weeks, the estimates and recommendations contained herein will be adjusted as required. You will then be able to make operating and capital budget adjustments as deemed advisable prior to Town Meeting.

The document presented for your consideration is the product of a great deal of work. Our department heads, second to none in the Commonwealth in terms of professional competence and dedication to their tasks, provided invaluable input and assistance. Members of boards and commissions offered valuable assistance. In particular, I would like to thank the Board of Selectmen for its policy insights and leadership. I am most of all indebted to Deputy Town Manager Nancy Galkowski, who deserves the credit for the quality of the budget document and the information and the data contained herein. This is the last budget that Nancy will work on for Arlington, as she has been offered and accepted the position of Town Manager for the Town of Holden. Nancy's professional skills and dedication will be missed. I would also like to extend a special word of thanks to my office staff, Joan Roman, Eileen Messina, and Domenic Lanzillotti, with major support from our intern, Theo Kalivas, who spent evenings and weekends assisting in producing this document.

Respectfully submitted,

Brian F. Sullivan

Town Manager



Long Range Financial Projection

	FY 2010	FY 2011	Dollar Change	Percent Change	FY 2012	FY 2013	FY 2014	FY 2015
I REVENUE								
A. State Aid	14,240,565	13,701,410	(539,155)	-3.8%	13,701,410	14,360,345	15,052,227	15,778,704
School Construction Aid	2,531,085	2,531,085	0	0.0%	2,531,085	2,531,085	2,531,085	2,531,085
IDEA Funds	749,327	719,928	(29,399)	-3.9%				
B. Local Receipts	8,026,872	8,860,000	833,128	10.4%	8,910,000	8,960,000	9,010,000	9,060,000
C. Free Cash	1,497,907	582,050	(915,857)	-61.1%	500,000	500,000	500,000	500,000
D. Overlay Reserve Surplus	500,000	500,000	0	0.0%	200,000	200,000	200,000	200,000
E. Property Tax	83,471,036	85,826,180	2,355,144	2.8%	88,219,462	90,669,087	93,175,064	95,758,830
F. Override Stabilization Fund	2,742,376	1,580,000	(1,162,376)		0	0	0	0
TOTAL REVENUES	113,759,168	114,300,653	541,485	0.5%	114,061,957	117,220,518	120,468,376	123,828,619
II APPROPRIATIONS								
A. Operating Budgets								
School	36,767,221	38,586,186	1,818,965		41,131,828	43,021,442	44,977,192	47,001,394
Fed. Stimulus & IDEA Funds	1,688,159	719,928	(968,231)					
Net School Budget	38,455,380	39,306,114	850,734	2.2%	41,131,828	43,021,442	44,977,192	47,001,394
Minuteman	3,090,368	2,739,795	(350,573)	-11.3%	2,849,387	2,963,362	3,081,897	3,205,173
Town Personnel Services	21,186,141	20,964,117	(222,024)		21,721,089	22,694,681	23,756,188	24,491,908
Expenses	9,060,916	9,110,916	50,000		9,160,916	9,210,916	9,260,916	9,310,916
Less Offsets:								
Enterprise Fund/Other	1,642,237	1,629,215	(13,022)	-0.8%	1,694,384	1,762,159	1,832,645	1,905,951
Tip Fee Stabilization Fund	680,000	680,000	0	0.0%	450,000	400,000	400,000	34,958
Net Town Budget	27,924,820	27,765,818	(159,002)	-0.6%	28,737,622	29,743,438	30,784,459	31,861,915
MWRA Debt Shift	5,593,112	5,593,112	0	0.0%	5,593,112	5,593,112	5,593,112	5,593,112
B. Capital budget								
Exempt Debt Service	2,697,768	2,618,094	(79,674)	-3.0%	2,529,197	2,434,589	2,332,724	2,243,452
Non-Exempt Service	4,907,303	4,839,632	(67,671)	-1.4%	5,230,090	5,417,998	5,616,676	5,627,749
Cash	755,740	934,947	179,207	23.7%	830,200	865,250	845,800	752,800
Minus Capital Carry Forward	(253,047)	(425,000)	(171,953)	68.0%				
Total Capital	8,107,764	7,967,673	(140,091)	-1.7%	8,589,487	8,717,837	8,795,200	8,624,001
C. Pensions	6,595,296	6,852,810	257,514	3.9%	7,263,979	7,699,817	8,161,806	8,651,515
D. Insurance	18,019,711	19,467,863	1,448,152	8.0%	20,830,613	22,288,756	23,848,969	25,518,397
E. State Assessments	2,640,512	2,664,777	24,265	0.9%	2,731,396	2,799,681	2,869,673	2,941,415
F. Offset Aid - Library & School	61,490	58,547	(2,943)	-4.8%	58,547	58,547	58,547	58,547
G. Overlay Reserve	1,153,427	600,000	(553,427)	-48.0%	600,000	800,000	600,000	600,000
H. Other Crt Jdgmnts/ Deficit/Symmes	1,470,773	700,000	(770,773)	-52.4%	700,000	700,000	700,000	700,000
I. Warrant Articles	646,515	584,144	(62,371)	-9.6%	646,515	646,515	646,515	646,515
J. Override Stabilization Fund								
K. TOTAL APPROPRIATIONS	113,759,168	114,300,653	541,485	0.5%	119,732,486	125,032,509	130,117,371	135,401,984
BALANCE	(0)	(0)	0		(5,670,529)	(7,811,991)	(9,648,995)	(11,573,365)
Increase in deficit from prior year					(5,670,529)	(2,141,462)	(1,837,004)	(1,924,370)